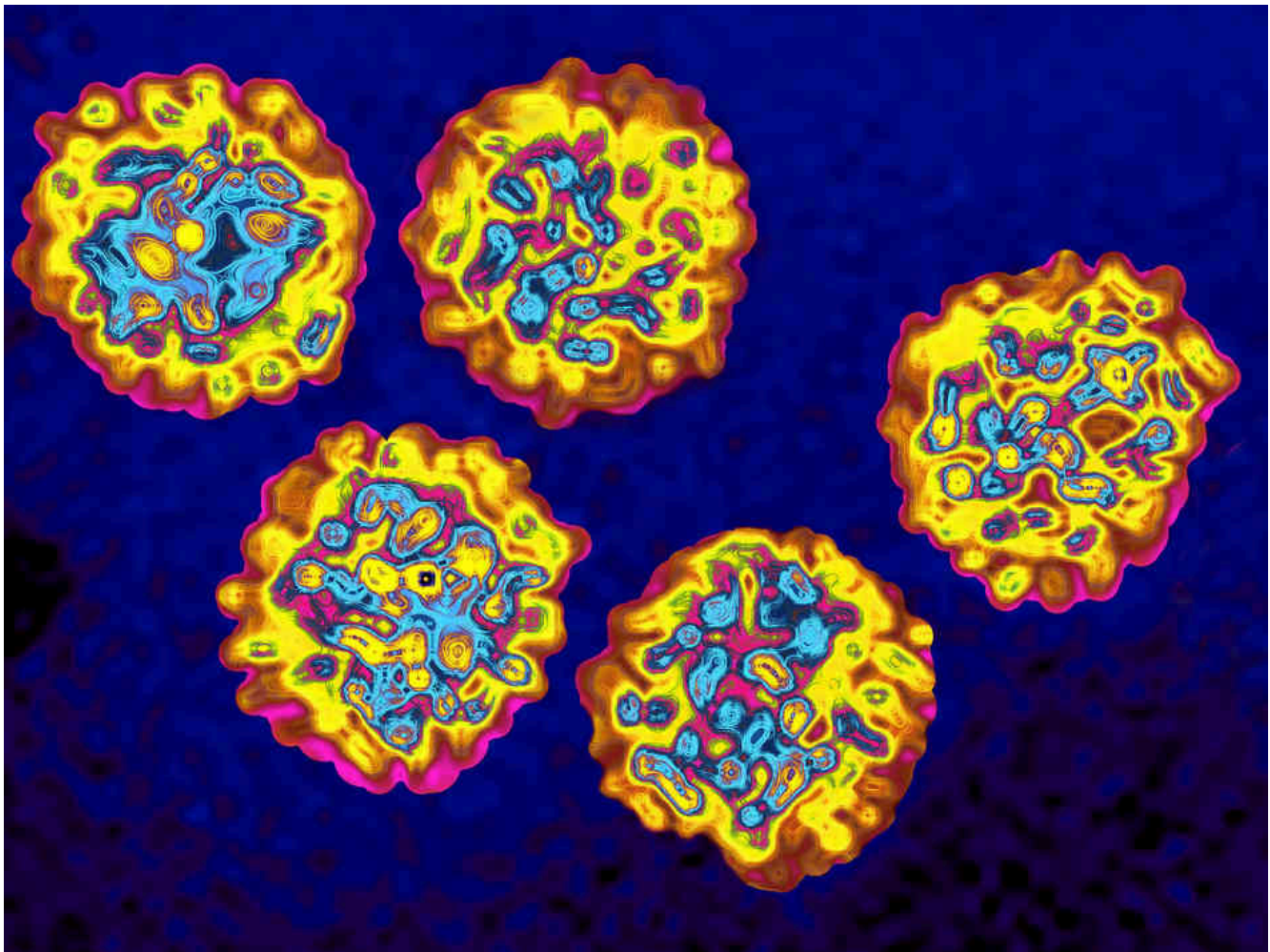




#HEDGE PAPERS NO. 13 – HEPATITIS C AND HEDGE FUND PROFITEERS

4 MAY 2015 • DRUG PRICES, GLENN DUBIN, JOEL GREENBLATT, JULIAN ROBERTSON



Hepatitis C Virus imaged with an electron microscope. Image via: thomasdickinsonscienceblog.com

HEPATITIS C AND HEDGE FUND PROFITEERS

MEET THE HEDGE FUND MANAGERS CASHING IN ON PREDATORY DRUG PRICING SCHEMES FROM GILEAD SCIENCES

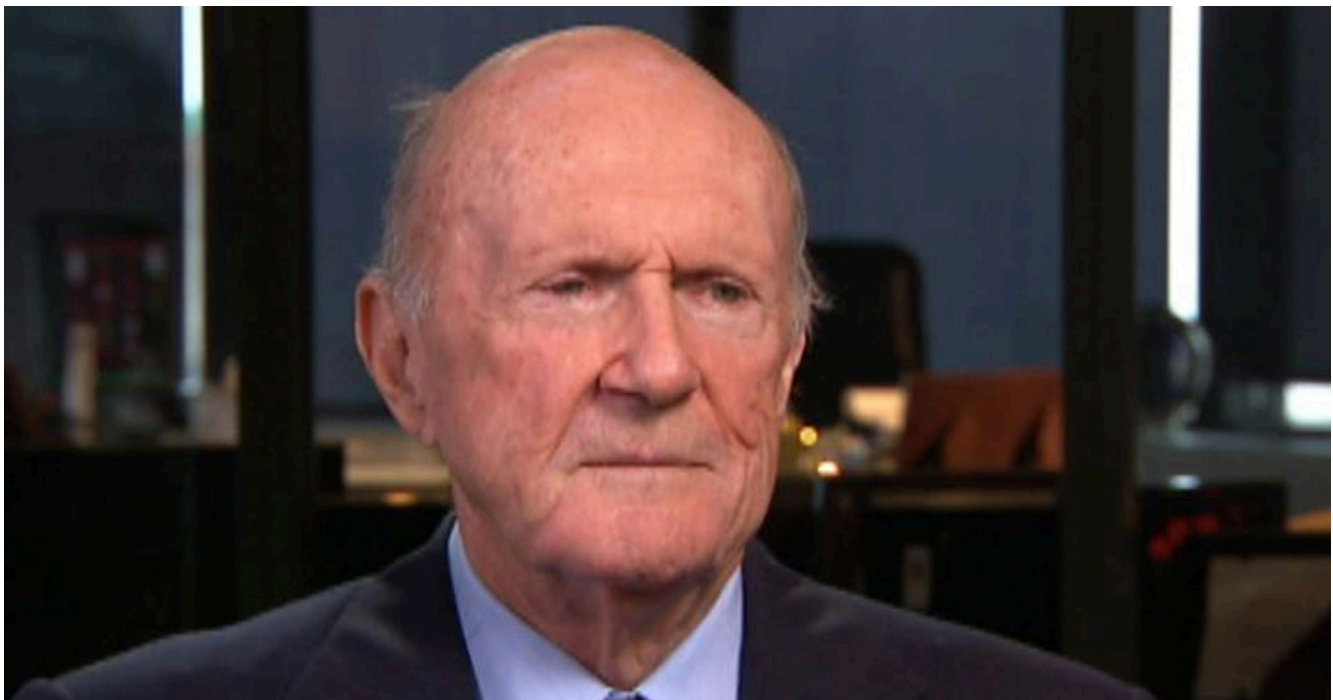
For millions of Americans infected with Hepatitis C, the inflated prices of new Hepatitis C drugs from Gilead Sciences translate into limited access and prolonged illness.

The pharmaceutical giant is charging as much as \$1,125 per pill and \$94,500 for a course of its lifesaving treatments, forcing health care systems to limit access, robbing patients of a decent quality of life, and forcing many into serious health problems and complications.

Hedge fund managers are laughing all the way to the bank.

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A pack of hedge fund managers bet big on Gilead price-gouging schemes in 2014, led by Julian Robertson of Tiger Management.



Hedge fund manager Julian Robertson. Image via: CNBC.com

Robertson is a sort of hedge fund ringleader known for cultivating a network of protégés, or “Tiger Cubs.” Robertson showed no concern for Hepatitis C patients who can’t access the drug in a June 2014 interview on CNBC, instead touting Gilead’s profits:

I love Gilead right now. I think it’s fabulous...They’re going to get inundated with cash from the profits on the Hepatitis C drug. And in the past, they’ve done a wonderful job with handling their cash. I think Gilead is really pharmaceutical steal.[1]

According to SEC filings, other prominent hedge fund managers taking large stakes in Gilead during 2014 included:

STEVE COHEN, CHAIRMAN AND CEO OF POINT72 ASSET MANAGEMENT



Steve Cohen, Chairman and CEO of Point72 Asset Management. Image via: Business Insider

- Steve Cohen of Point72, whose firm's schemes to game drug trials resulted in extensive insider trading investigations and almost landed him in prison;

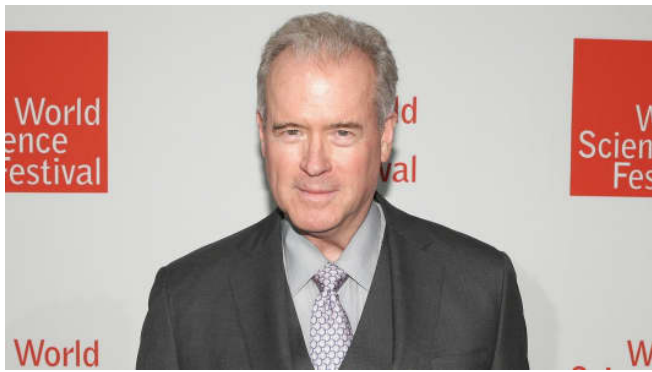
CLIFF ASNESS, FOUNDER OF AQR CAPITAL MANAGEMENT



Cliff Asness, Founder of AQR Capital Management. Image via: CNBC.com

- Cliff Asness of AQR Capital Management, who has published extensive rants against Obamacare, and who sits on the board of the Manhattan Institute, which opposes Medicare drug price negotiations;

ROBERT MERCER, CEO OF RENAISSANCE TECHNOLOGIES



Robert Mercer, CEO of Renaissance Technologies. Image via: CNBC.com

- Robert Mercer of Renaissance Technologies, a major backer of key players in the fight against Obamacare, including the Heartland Institute and presidential candidate Ted Cruz.

Two other high-profile hedge fund managers, Joel Greenblatt of Gotham Asset Management and Glenn Dubin of Highbridge Capital, also significantly increased their stakes in Gilead Sciences over the course of 2014.

Prior to the FDA approval of Gilead's first breakthrough treatment, Sovaldi, in late 2013, these six hedge funds collectively reported owning \$45 million worth of Gilead stock. At the end of 2014, they owned twelve times as many shares and nearly \$844 million worth of Gilead stock.

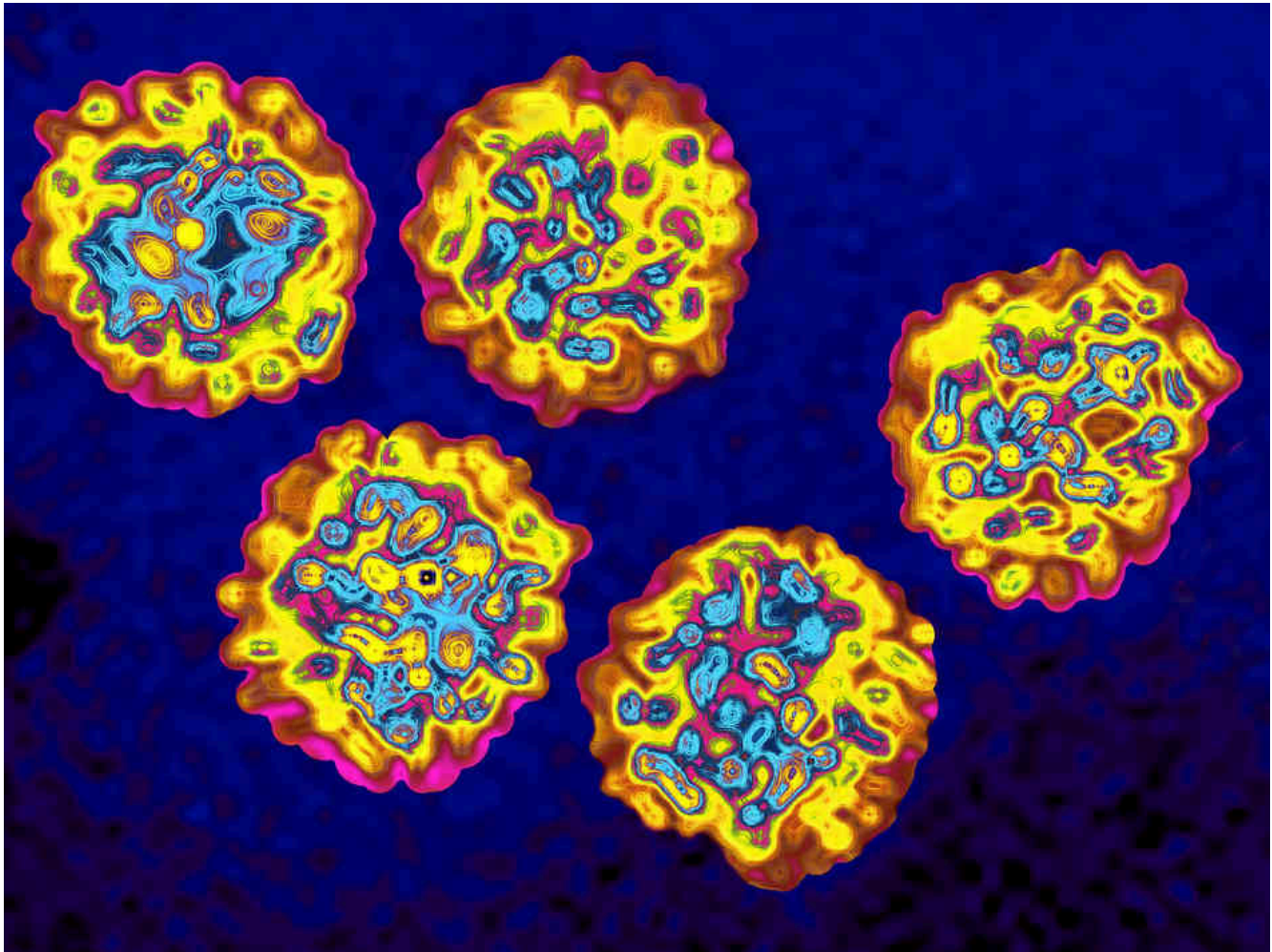


Activists in Albany demanding action to end NY's hepatitis C epidemic. Image via: vocal-ny.org

The bet turned out well for the hedge fund managers — Gilead's stock rose 84% over the time period studied. But things haven't worked so well for Hepatitis C patients who still can't get access to Gilead's overpriced drugs.



GILEAD SCIENCES: PREYING ON HEPATITIS C PATIENTS FOR PROFIT



Hepatitis C Virus imaged with an electron microscope. Image via: thomasdickinsonsscienceblog.com

Hepatitis C (HCV) is the most common life-threatening viral infection in the United States, with over 3.5 million people in the US and 170 million worldwide suffering from the disease. In New York City alone 146,500 people are thought to be infected with HCV, leading the New York City Department of Health to label it an epidemic.

A serious illness that attacks the liver, if left untreated HCV can lead to liver scarring (fibrosis), liver cancer, disability, and death.^[3] In recent years deaths related to HCV in the US have surpassed those related to HIV.

But instead of raising alarm, these numbers are raising cash for profiteering drug companies and their backers.

Pharmaceutical giant Gilead Sciences is an industry leader, with a 75-80% U.S. market share in medications that have the potential to cure Hepatitis C.[4] Gilead's breakthrough treatment, Sovaldi, has been proven to cure most patients within three months, yet is being sold at the ludicrous rate of \$1,000 per pill, or \$84,000 for the full round of treatment. A new combination treatment combining Sovaldi and a newer drug, Ledipasvir, was approved by the FDA in October 2014 and is being sold at a market price of \$94,500 for a single 12-week course of treatment.

At the same time, the costs to produce these life-saving drugs are minimal: just \$68-\$137 for the full 12-week treatment, in Sovaldi's case.[5] And to top it off, Gilead Sciences received millions in state and federal subsidies and loan guarantees.[6]

In February 2015, economist Jeff Sachs published an op-ed under the headline "The Drug that is Bankrupting America" that pointed out that the private-sector research and development costs for Sovaldi over a decade – about \$300 million – were recouped in a few weeks of drug sales.[7]

Gilead made \$10.3 billion from Sovaldi and doubled its overall returns in 2014 on the strength of its HCV medication sales alone.[8] In April 2015, it announced that its newer drug, Harvoni, had overall sales of \$3.6 billion, putting the company on pace to achieve even higher revenues in 2015.[9]

While Gilead's outrageous price scheme has thus far been accepted in the United States, the Indian government refused to give Gilead a patent for Sovaldi in the Indian market, finding that Gilead had made only "minor changes" to a previously patented molecule and had not demonstrated improved therapeutic efficacy.[10] As a result, patients in India can purchase a generic form of the Gilead product for only \$300.[11]

Dr. Manica Balasegaram, Executive Director of Doctors without Borders and a proponent of India's patent refusal, said that overcoming the "stronghold of Gilead's monopoly" on HCV treatments is critical to treating patients in need around the world.[12]

Indeed, a company with a cure is standing in the way of curing millions around the world.



MEET THE HEDGE FUND HEPATITIS C PROFITEERS

Hedge fund managers have been some of the biggest backers of Gilead Sciences' predatory pricing scheme – and some of its biggest beneficiaries.

Even as public officials, economists, and healthcare experts question the costs of Gilead's Hepatitis C treatments, hedge fund managers have applauded the company and the cash it is generating, and grabbed bigger and bigger

slices of its stock and profits.

Chief among them is Julian Robertson of Tiger Management LLC, a veteran of the hedge fund industry who is known for having a large network of protégés and followers.

Robertson spoke publicly about his “love” for Gilead’s business model on CNBC last year. During the interview, he showed no concern for Hepatitis C patients left without access to the drug, instead gushing over Gilead’s business model. “I think it’s fabulous,” he told the host, before applauding the fact that the company would be “inundated with cash from the profits on the Hepatitis C drug.” [13]

He labeled it a “pharmaceutical steal.”



Over the course of late 2013 and 2014, Robertson increased the size of his stake in Gilead by over 100%, making it his second largest holding.

Other hedge fund managers followed Robertson’s lead, as they often do. The below chart and table set forth the Gilead Sciences stock holdings of Robertson and five other prominent hedge fund managers, as of September 2013, before Sovaldi was approved, as of September 2014, before Harvoni was approved, and as of December 31, 2014, the last date for which data is available on their holdings.

These six hedge fund managers increased their shares of Gilead by twelve times during this period. The stock price rose 84% over this period, and the value of their collective holdings in Gilead went from \$45 million to \$844 million.

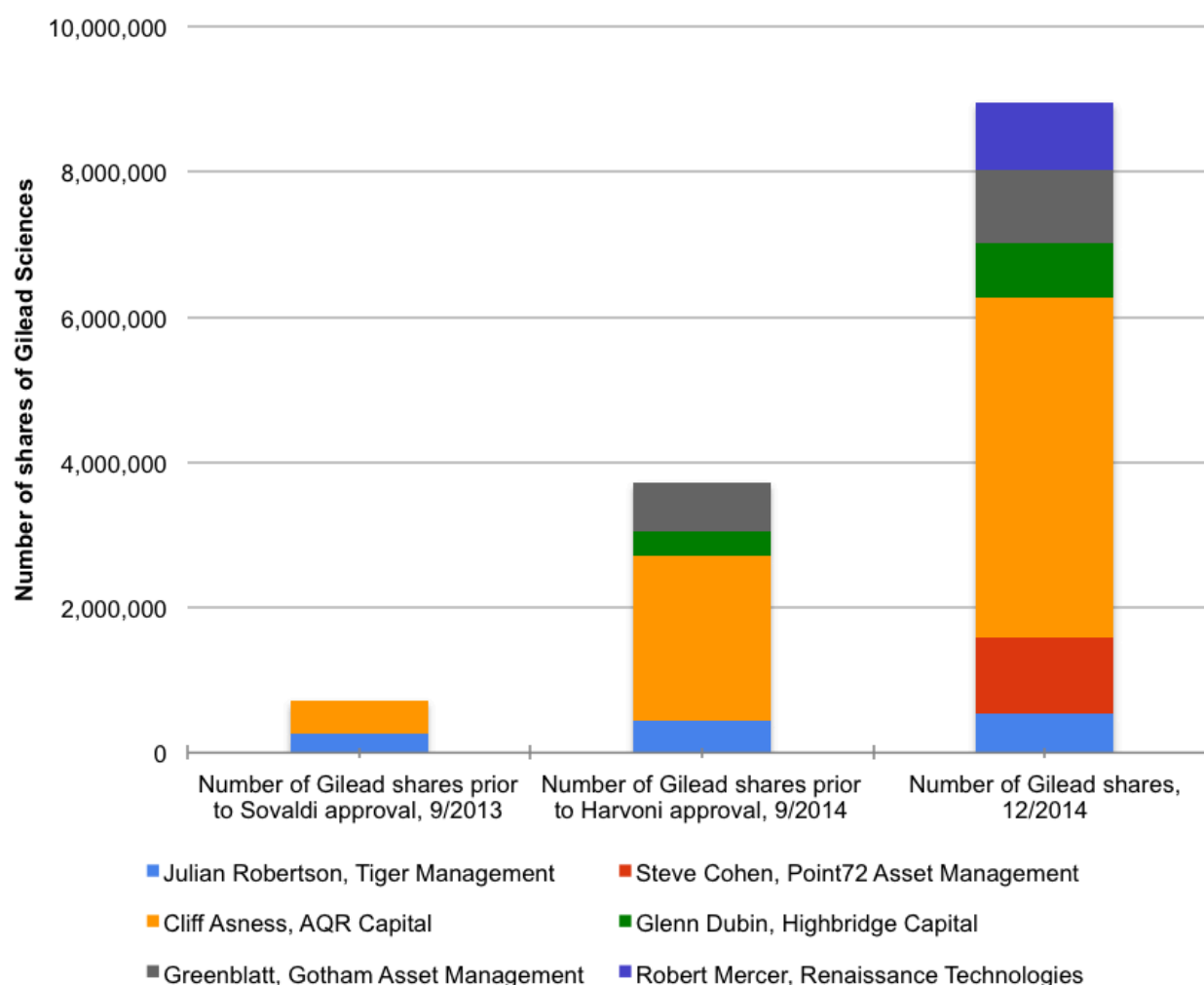
That’s a lot of interest in curing Hepatitis C victims – or rather, in squeezing them for profit.

TABLE: HEDGE FUND GILEAD SCIENCES SHARES BEFORE AND AFTER FDA DRUG APPROVALS

	Prior to FDA Approval of Sovaldi, Sept 30, 2013		Prior to FDA Approval of Harvoni, Sept 30, 2014		As of Dec 31, 2014	
Hedge fund	Shares	Value	Shares	Value	Shares	Value
Julian Robertson, Tiger Management	254,300	\$16m	443,911	\$47m	533,911	\$50m
Steve Cohen, Point72 Asset Management	0	0	0	0	1,061,100	\$100m
Cliff Asness, AQR Capital	470,151	\$29m	2,261,483	0	4,664,904	\$440m
Glenn Dubin, Highbridge Capital	0	0	348,589	\$241m	748,143	\$71m
Greenblatt, Gotham Asset Management	0	0	664,223	\$37m	1,009,462	\$95m
Robert Mercer, Renaissance Technologies	0	0	0	0	941,400	\$89m
Total	724,451	\$45m	3,718,206	\$325m	8,958,920	\$844m

Note: data is drawn from 13f filings filed with the SEC, and accessible on SEC EDGAR.

Hedge funds & Gilead: Before and after FDA approval



Robertson's enthusiasm for Gilead and willingness to profit from the hardship of Hepatitis C patients really isn't that much different than many of the other exploits that he has guided Tiger Management through.

"Tiger's biggest successes involved profiting from economic distress, and — if you believe the complaints of some Asian governments — in some cases deliberately creating it."

– Paul Krugman for the New York Times [14]

As Paul Krugman described him fifteen years ago, Robertson has been adept at taking advantage of distress—be it the distressed currencies of countries like Thailand, or the distressed healthcare system that allows companies like Gilead to prey on the sick. [15]

Gilead's largest hedge fund investor has also not escaped controversy in his personal life.

Robertson, whose net worth is estimated at \$3.4 billion, [16] is notable for his extreme attempts at evading New York City's income taxes.

While Tiger Management's offices are on Park Avenue, Robertson previously spent much of his time out of the city, at his homes in New Zealand, Idaho, and Nassau County, to avoid New York City taxes.



Image via: Huffington Post

Robertson became so adept at avoiding his tax bill that he would instruct his assistant to meticulously track his New York City and non-New York City days, often jumping in a cab – or even a pedicab — to be whisked away before midnight, a bizarre cross between Scrooge and Cinderella.^[17]

Robertson and his late wife petitioned the New York State Tax division over their 2000 tax refund, using travel records to show that Robertson was likely in New York City for 183 days or less per year, effectively reducing his tax bill by \$26,702,341.00.^[18]



POLITICS, HEDGE FUNDS AND DRUG PROFITEERING

Robertson and other hedge fund managers cashing in on Hepatitis C are also working the political angle, buying politicians and advocacy groups that oppose drug price negotiations and broader access to healthcare.

For instance, Robertson helped finance the election of Joni Ernst, the Iowa Republican senator who has advocated for the repeal of Obamacare, and has given heavily to other Republicans.^{[19][20]}



Robertson has also donated more than \$500,000 to American Crossroads, the right-wing super PAC created by Karl Rove.^[21]

Robertson is one of the few individuals wealthy enough to afford to employ his own personal lobbyists on Capitol Hill. Since 2013, Robertson has been lobbying in favor of the Trans-Pacific Partnership, a secretive trade agreement that could access to generic medications in the developing world.^{[22] [23]} Gilead's lobbying disclosures show that they are also lobbying on "International trade and protection of intellectual property" issues.^[24] Doctors Without Borders has condemned proposed components of the Trans-Pacific Partnership as being devastating to healthcare access in developing countries.^[25] These restrictions on generic drugs would, of course, benefit Gilead and its hedge fund investors.

Some of the political activities of others in the Hepatitis C hedge fund group are even more notable. Robert Mercer of Renaissance Technologies was recently reported to have bankrolled the network of Super PACs behind Ted Cruz's presidential candidacy, which has raised \$31 million. Cruz led the effort to repeal Obamacare in the Senate.



Image via: NationofChange.org

Mercer is also a key backer of right-wing advocacy groups that oppose Medicare drug price negotiations that would lower pharmaceutical costs, including the Heartland Institute and the Manhattan Institute. [26][27] Mercer gave \$784,225 to the Manhattan Institute from 2011 to 2013, and \$2.2 million to the Heartland Institute. [28] Mercer's daughter, Rebekah, runs the foundation and sits on the Manhattan Institute's board.



Gilead's anti-Hepatitis C drug Sovaldi. Image via: Wall Street Journal

Another Hepatitis C drug profiteer, AQR's Cliff Asness, also sits on the board of the Manhattan Institute. Asness is an outspoken critic of policies that lower drug costs. In one rant, he described Canadians as "parasitic hosers" for the country's low drug costs and has repeatedly railed against Obamacare and the notion that healthcare is a "right."



FOOTNOTES

- [1] <http://www.cnbc.com/id/101754198>
- [2] <http://www.nyc.gov/html/doh/downloads/pdf/cd/hepC-action-plan.pdf>
- [3] <http://www.cdc.gov/hepatitis/HCV/PDFs/HepCGeneralFactSheet.pdf>
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- [12] <http://www.bloomberg.com/news/articles/2015-01-15/how-indias-patent-office-destroyed-gileads-global-game-plan>
- [13] <http://www.cnbc.com/id/101754198>
- [14] <http://www.nytimes.com/2000/04/02/opinion/reckonings-a-hedge-fund-pruned.html>
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[26] <https://www.heartland.org/policy-documents/research-commentary-proposed-reforms-undermine-medicare-part-ds-success>

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